Unitil

July 14, 2004

BY OVERNIGHT MAIL

Mary L. Cottrell, Secretary
Massachusetts Department of Telecommunications and Energy
One South Station, 2nd floor
Boston, MA 02110

RE: D.T.E. 04-1: An investigation by the Department of Telecommunications and Energy regarding the assignment of interstate pipeline capacity pursuant to Natural Gas Unbundling, D.T.E. 98-32-B (1999).

Dear Ms. Cottrell,

Enclosed for filing please find Fitchburg Gas and Electric Light Company d/b/a Unitil ("Unitil") responses to the Second Set of Information Requests from the Department of Telecommunications and Energy ("Department") in the above-captioned filing, DTE-FG&E-2-1 through DTE-FG&E-2-8.

Thank you for your attention to this matter.

Sincerely,

Gary Epler

Gary Epler

Enclosure

cc: Caroline M. Bulger, Hearing Officer
Andreas Thanos, Assistant Director Gas Division (5)
Joseph Rogers, Assistant Attorney General (via Overnight Mail)

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Request No. DTE-FG&E-2-1

All parties should comment on the nature and magnitude of any potential commodity-cost implications of a shift to a path, rather than slice-of-system, approach to capacity assignment, as raised in Bay State Gas Company's Reply Comments, at p. 6.

Response:

Unitil agrees with Bay State that the commodity pricing differentials between particular points and zones are significant, especially during the winter months. Unitil also has a receipt point that doesn't have a monthly index (Dracut receipt point on TGP). Gas delivered to this point traded as high a $70 per Dth on the spot market January 15th, 2004, whereas the cost at Unitil's gulf receipt points remained below $6.00 Dth. Some receipt points are more liquid than others and are more desirable. Unitil also agrees with Bay State that the first marketers to choose a path would choose the most economic paths, leaving other marketers and the LDC with the less desirable and more expensive paths to procure natural gas.

The need for peaking facilities shouldn't be lost in the decision to go from slice of system to path approach in releasing capacity to the marketers, as the peaking facilities are used to maintain reliability to the entire system during peak conditions. Any change in the capacity assignment methodology should require the financial support of these facilities by all capacity-assigned customers, including those that purchase their supply from a marketer.

Person Responsible: Richard A. MacInnis **Date:** July 14, 2004

Request No. DTE-FG&E-2-2

Please provide a discussion of other potential implications, besides commodity costs addressed in the previous Information Request, of a shift to the path-based capacity-assignment standard.

Response:

Contracting for natural gas commodity could be an issue for the path approach to releases to marketers. If a marketer on the annual reassignment date should choose to take capacity on a path which the LDC has already contracted gas, the LDC could have costs that it would need to pass on to the remaining customers of the LDC. All of Unitil's contracting happens well before the annual reassignment date to the marketers.

The path approach could potentially create problems during summer storage injection. If marketers elect to take long-haul capacity and do not elect to take a portion of the storage capacity, then Unitil would face potential problems transporting natural gas from the gulf supply area to the storage area. If the Department were to proceed with a path approach, then Unitil would request that either marketers electing long-haul transportation be required to take and fill a portion of the storage capacity or that Unitil be permitted to refuse to fulfill a marketer election of long-haul capacity, if such election would leave Unitil without adequate capacity to meet its target storage inventory levels.

Similarly, problems could arise during winter storage withdrawal. If marketers elect to take the capacity from the storage withdrawal points to the Fitchburg city gate and do not elect to take the storage itself, then Unitil would face problems utilizing this inventory. Unitil would request either that marketers electing this capacity be required to take a portion of the storage capacity and purchase a pro-rated share of Unitil's inventory or permit Unitil to refuse a capacity assignment election of this capacity if such an election were to leave Unitil unable to fully utilize the deliverability of its storage withdrawal contract rights.

Person Responsible: Richard A. MacInnis **Date:** July 14, 2004

Request No. DTE-FG&E-2-3

Discuss the question as to (i) whether a shift to the path capacity-assignment standard will ease administrative burdens of contract management and thereby increase competitiveness of marketers and (ii) assuming a fully and workably competitive Massachusetts gas market, whether the impact of path-specific commodity-cost differentials will diminish as transportation volumes increase as a percentage of LDC throughput.

Response:

(i) Unitil has a small portfolio of transportation contracts, all with Tennessee Gas Pipeline. The administrative burden would not change significantly, if the capacity assignment methodology were converted from a slice of system to a path approach.

(ii) The impact of commodity cost differentials would not diminish, even if transportation-only volumes increased as a percentage of LDC throughput. This would not solve the problem of marketers "cherry-picking" the least-cost paths. Although marketers may select the less attractive paths as the transportation volumes rise, the first marketers to elect paths would always have a cost advantage over subsequent marketers.

In the DTE's first set of information requests, Unitil proposed that a virtual slice of system approach be taken. (See Unitil's response to DTE-FG&E-1-13.) This would give marketers a portion of each zone that Unitil currently has, instead of the literal slice of system approach that is currently being used. Amerada Hess has proposed a similar approach, which would require the "release of one long haul and one short haul contract and storage contract per pipeline." (Please see Amerada Hess Initial Comments, pg. 6.) Unitil believes this approach would be better than either the path or literal slice of system because it would take the discrepancy of the commodity charges and pipeline reservation fees into account, while dramatically reducing the problem of stranded capacity. Local peaking capacity would also continue to be assigned under Unitil's virtual slice approach.

As an example: If an LDC has 4 long haul contracts, 4 Market area contracts and three zone 6 contracts (Massachusetts is specified as TGP zone 6),the LDC would release on only one of the contracts in each of the specified zones. This would take into account the reservation charges from the pipeline, the commodity issues and the administrative burdens that may accompany the path approach, i.e.: the cost of inequities through charges or credits to the marketers on the average price of pipeline contracts, or the large discrepancies in zonal pricing.

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Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company d/b/a Unitil
Docket No: D.T.E. 04-1
DTE's Second Set of Document and Information Requests

Request No. DTE-FG&E-2-4

Assuming the Department were to adopt a standard of path-based capacity assignment, please enumerate and discuss what Terms and Conditions changes might be necessary to implement such a shift.

Response:

Fitchburg Gas and Electric Light Company Tariff, Section 13, Capacity Assignment, would need to be changed to reflect the change to a path capacity assignment from the slice of system approach that it currently provides for. Only slight modifications would be required if a virtual slice of system approach is taken.

If the Energy East proposal for path-based capacity assignment at the LDC average cost of capacity is accepted, then Unitil would need to add provisions to charge marketers, holding capacity below Unitil's average capacity cost and to pay marketers, holding capacity above Unitil's average capacity cost. It is not clear that the commodity cost implications of Energy East's proposal could be calculated and codified appropriately in the Terms and Conditions.

Person Responsible: Richard A. MacInnis **Date:** July 14, 2004

Request No. DTE-FG&E-2-5

What Terms and Conditions changes might need to be implemented in order that a shift to the path capacity-assignment standard would spare firm and transportation customers of any commodity-cost subsidization?

Response:

The Amerada Hess path capacity assignment proposal would achieve the objective of eliminating the stranded capacity problem without creating a commodity-cost subsidization problem, so long as it provided for the recovery of the cost of peaking facilities from all capacity-assigned customers. Under this proposal, the marketer would hold a pro-rated quantity of both long-haul and short-haul capacity. This proposal is similar to Unitil's virtual slice of system proposal. As such, the Terms and Conditions would need to provide that marketers be required to elect a pro-rated portion of the LDC's pipeline portfolio from each pipeline zone, rather than allowing a pure path approach. In short, Unitil does not believe that it is feasible to protect its firm and transportation customers from any commodity-cost subsidization under a pure path assignment scheme, whereby marketers were not required to elect a portion of the LDC's capacity at each pipeline zone.

It should be noted that the Amerada Hess proposal differs from the Unitil proposal in that Hess proposes that a marketer could choose amongst the LDC's capacity contracts by pipeline zone. Unitil's virtual slice of system proposal would require the marketers to accept a single contract in each pipeline zone, selected by the LDC. The reason for this restriction is to allow the LDC to coordinate supply purchasing. If the path within the zone is determined by the marketer, then the LDC cannot make firm supply commitments, since it would not know which receipt meters would be taken by marketers.

Unitil opposes a pure path approach to capacity assignment. However, if a pure path approach were to be adopted, then Unitil would prefer that marketers be charged the LDC's cost for the path, rather than the average capacity cost. This would at least mitigate the commodity-cost subsidization, if not eliminate it. For example, a marketer who elected long-haul capacity would pay the long-haul demand rate for this capacity, rather than the average LDC capacity rate. This marketer would have access to lower cost commodity, but would compensate for this access through higher demand charges.

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Request No. DTE-FG&E-2-6

Each LDC should address whether or not it releases capacity on a monthly basis or some other basis, such as the term of the underlying contract, noting the relevant provisions of the company's Terms and Conditions, and explaining any variance from those provisions.

Response:

Unitil's Terms and Conditions state that capacity contracts released to a supplier on an assignment date shall be released for a term beginning on the first day of the month following the assignment date through the expiration of the underlying contract being assigned. Unitil releases capacity up to the annual reassignment date, which is November 1st. When customers go to supplier service throughout the year, Unitil releases capacity starting on the first day of the month following the switch to supplier service and continuing to the annual reassignment date. Unitil releases and recalls capacity on a monthly basis only when a supplier adds or drops capacity-assigned customers and such action puts the supplier in a different capacity block.

Person Responsible: Richard A. MacInnis **Date:** July 14, 2004

Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company d/b/a Unitil
Docket No: D.T.E. 04-1
DTE's Second Set of Document and Information Requests

Request No. DTE-FG&E-2-7

If the Department were to decline to adopt the terms and conditions changes proposed by the marketers[1] and adopted a path approach instead of a slice-of-system approach, please address the effect on system operations and competition.

Response:

There would be additional billing issues with a path approach which would have to be listed on each of the LDC's websites. Each LDC's website would list a surcharge or credit for each path offered and to the extent a mechanism to reflect the commodity price differentials across different paths could be found, this would also be listed. Each of the LDC's would also have to work individually with each marketer serving on the LDC territory for specific invoicing or remittance pertaining to the path chosen and the commodity price of the receipt zone.

Please refer to Unitil's response to DTE-FG&E-2-2 for a discussion of the potential impacts on storage injection and withdrawal.

Unitil believes a path approach would increase the migration from Unitil's Default Service to supplier service. However, Unitil continues to be concerned that such an approach would lead to the subsidization of commodity costs by Unitil's Default Service customers to the external supply customers because the marketers would choose the lowest-cost paths.

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1 These changes include: (i) monthly re-call and re-release of capacity; (ii) balancing penalty provisions, (iii) synchronization of nomination deadlines and procedures with industry standards; (iv) marketer access to the algorithms used by LDCs to forecast the usage of non-daily metered customers; and (v) modification of the algorithms used to forecast the usage of non-daily metered customers for summer and winter loads to exclude weather sensitivity calculations.

Request No. DTE-FG&E-2-8

If the Department were to adopt the terms and conditions changes proposed by the marketers and maintained the slice-of-system policy, please address the effect on system operations and competition.

Response:

(i) Unitil currently recalls and re-releases on an annual basis, rather than a monthly basis, unless a marketer either adds or drops a customer that puts the marketer into a different capacity block. As such, there would be no effect on either system operations or competition, if reassignment were annual, rather than monthly.

(ii) Unitil follows the terms and conditions in assessing penalties, and only charges Operational Flow Orders ("OFO") penalties to marketers if Tennessee Gas Pipeline ("TGP") charges Unitil. Unitil also agrees that reducing the balancing penalty from five times the cost of gas to two times the cost of gas, as proposed by Amerada Hess, would be an adequate economic incentive for marketers to remain in balance during times of OFO on the TGP system. However, Unitil would propose to add a provision that the balancing penalty rate should be the higher of either two times the cost of gas or the penalty charges assessed by TGP, in order to assure that Unitil collects enough from the marketer to cover its cost.

(iii) Although Unitil has a different holiday schedule for nominations than the industry standard presented in Energy East Solutions' Initial Comments, Unitil has never refused a nomination by a marketer because of conflicting holiday schedules. As such, this change would neither impact system operations nor competition.

(iv) Unitil uses proprietary software to calculate usage; we are able to give the resulting base and heating increments of each customer to the marketer. Unitil currently notifies marketers prior to the nomination deadline of the quantity of gas required for non-daily metered customers.

(v) Unitil disagrees with this approach because the shoulder months of the summer season will have weather sensitivity and its inclusion is needed to calculate usage correctly.

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